FINANCIAL STATEMENT AND DECISION MAKING PROCESS
A CASE STUDY OF POSTBANK MAKUENI BRANCH
MAKUENI TOWN (KENYA)

BY

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DECLARATION

I Esther.M. Mwanganda hereby declare to KAMPALA ITERNATIONAL UNIVERSITY that the contents of this research report are the result of my own study and findings to the best of my knowledge. And that it has not been submitted for award of BACHELORS DEGREE IN BUSINESS ADMINSTRATION in any other recognized institution of higher learning

Researcher's signature

Esther Mwanganda.

....

Date ...1...1..06...............2012

APPROVAL

This is to certify that this dissertation has been done under my supervision and submitted to the college of economics and management sciences with my approval.

Supervisor's Name : DR.STANLEY KINYATTA

Signature : ....

Date : ...... 1st June 2012 ....

DEDICATION

This work is dedicated to my beloved mummy .As my promise to her that one day I will make her life the best and My daddy as well for all their guidance, protection, material and moral support that has enabled me prosper in my academic endeavours, word of appreciation fail me but all I can say "THANK YOU" and I love you so much Mummy and Daddy.

ACKNOWLEDGEMENTS

I wish to acknowledge the indispensable and outstanding assistance given to me by various individuals. Their efforts and encouragement contributed much to the success of this research. However, the list is too long for everyone to be listed but this doesn't indicate any dilution of my gratitude. It is indeed a real pleasure to extend my own appreciation to -

First and foremost, to my supervisor Dr.Stanley Kinyata for his advice in my research proposal as well as constructive suggestions and comments that lead to the improvement of the initial draft of my research report.

Furthermore, special thanks go to the administration of postbank makueni branch, Finance and Administration Officer in particular, for allowing me to carry out this research. Nevertheless, I extend my sincere gratitude to all staff members of post bank your contribution will always be recommended.

Special thanks to the almighty God for helping me reach this far and complete my education successfully

Last but not least grateful thanks go to my fellow students whom I have shared ideas here and there and getting assistance in data collection. Their cooperation rendered on me will never be forgotten especially to Alfred, Antony, mariam and Samuel who helped me in one way or another.

"I LOVE YOU ALL AND GOD BLESS YOU"

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OPERATIONAL DEFINITION OF KEY WORDS

Financial statement

Financial statement is defined as an art of recording, classifying and summarizing the accounting transactions in significant manner in terms of money and events which are in parts or at least of financial character and interpret the results thereafter, it is the language of economic activities

Financial statement can also be defined as the results of the activities of an entity and is prepared to help interested persons decide on questions such as whether to lend its money or to invest in

its shares. Financial statement analysis can also be seen as part of the link between the financial reports and the decision making process.

Decision making process

Decision comes from the word decide, which means to choose on in preference to other variable alternatives. Decision-making process involves a choice of actions or strategies, the outcome of which may be known for certainty or completely unknown.

Decision making is referred as the process of choosing a course of action from among alternatives to achieve a desired goal. It consists of activities a manager performs to come to a conclusion. Decision making is often a difficult task that is complicated by the existence of numerous alternatives and massive amount of data, only some of which may be relevant. Every decision involves choosing from among at least two alternatives. The cost and benefit of each alternative should be compared. An essential function of management is to take decision and decisions have to be taken whenever there are alternative courses of action.

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LIST OF ABBREVIATIONS

ADA	Advanced Diploma in Accountancy
GAAP	Generally Accepted accounting Principles
IAS	International Accounting Standards
BFIA	Banking and Financial Institutions Act
IFRS	International Financial Report Standard

ABSTRACT

This study was aiming at assessing the effectiveness of financial statements in decision-making process. The information or data was taken from post bank Makueni branch.

The research identified different things from post bank management in making decision using financial statement. Also it identified the role of financial statement within the organization and to the users and how it has helped them in all the proper management of the bank for proper decision making, not only that but also other things including the limitations and factors hindering the effective use of financial statement in decision making.

Based on conclusion from research study, different recommendations to post bank and its management have been recommended for better improvement and development of the banking services i.e. Training the staff, improve of accounting system in use, and also increase the number of staff in the accounting and finance department.

CHAPTER ONE

0 Introduction

his chapter covered the background to the problem, statement of the problem, research ›jectives, research questions, and significance of the study, scope of the study and conceptual amework.

1Background to the study

ıe purpose of accounting is to provide financial report about a profitable or non profitable ganization. this information are of interest to owners, managers and other parties outside the ısiness since accounting is used to gather and communicate financial information. It is often ıow as the language of business.

evertheless many companies and organizations all over the world are experiencing difficulties decision making processes resulting from poor prepared financial statement. Nobes et al 002). Postulated that to some extent financial statements may be prepared in such a way that ay not meet the needs of the users, this problem is explained worldwide; external environment lture, legal system, taxation and inflation may influence it.

ıle (2000) postulated that in most continental Europe, Asia and Africa, the traditional scarcity 'outsiders' shareholders has meant that external financial reporting has been largely invented the purpose of protecting creditors or controllers of economy. This has not encouraged the velopment of flexibility, judgment, fairness or experimentation. However, it does not lead to ›re careful accounting. This is because creditors are interested in worst case; they are likely to t their money back, whereas shareholders may be interested in an unbiased estimate of future ›spects. Practically it has been done in continental Africa to give wrong financial information tax evasion, fraudulent practice and complexity data. These entire scenarios do mislead ancial decision making processes.

cording to Adolf et al (1978), preparing financial report to be used in decision-making is a ficult task to many if not all of the commercial, industrial and government organizations in nya. This has caused the failure to deliver productive decisions due to lack of sufficient ecords to base decisions. Adolf and others pointed out that the commercial and industrial arastatal compositions of Kenya and fiscal affairs of the Kenyan government have been naracterized too often by mismanagement, lack of controls and accountability, operating losses nd irresponsibility, insufficiently trained and unsophisticated management, lack of adequate ccounting and statistical data upon which to base decisions.

dolf et al (1978) also postulated that non-profit organizations such as government and charities pically present statements which exhibit their resources and the way those resources were stributed or held. Stewardship and responsibility are the focus for these statements, thus it eeds financial report suited for disclosing useful information to different users within and itside the organization.

ne study examined and assessed how Postbank makes use of financial report in decision aking.

2 Statement of the Problem

anagers as the decision makers mostly depend on financial reports. If poorly prepared, mmarized and presented it may mislead the decision makers into making a poor decision nich may affect the overall operations of the organization. Many public and private ganizations are faced with the problem of making sound decision due to poor, inaccurate eparation of financial report, low level of education of the manager entrusted with the ganization decision making process, poor infrastructure and lack of the computer knowledge.

his study evaluated the role and importance of financial statement in decision making in suring that managers use them effectively in an effort to make the best decisions that will able an organization achieve its goals. Therefore, the study assessed the extent to which the ganization makes use of financial statement in decision making.

3 Purpose of the Study

e purpose of the study was to investigate the importance of financial statement in decision iking process.

.4 Objectives of the study

. To determine whether management make use of financial statement in decision making.

To find out and identify the role of financial statement in proper decision making.

To identify the limitation pertaining to the use of financial statement in decision making.

5 Research Questions

To what extent does the management make use of financial statement in decision making?

What is the role of financial statements in decision making?

What are the limitations of financial statement in decision making process?

6 Scope of the Study

ie study focused on the following scopes;

6.1 Geographical scope

ie study was conducted from post bank Makueni branch which is located at Makueni County in enya. The study was limited to the various departments in the bank that is finance accounting .man resource and sales department

5.2 Content scope

search was concentrated in the Finance and accounting department. The study examined the rious types of financial statement like income statement, balance sheet, cashbooks and cash ws that affect the decision making process in Postbank.

5.3 Time scope

.e study was conducted between May 2012 and June 2012

7 Significance of study

e findings of this study were of help to the researcher because;

The study provided working experience through combining theoretical skills and practical skills.

The study provided useful recommendations and suggestions to the organization on improving the financial reporting.

- . The study served as a guide for future references for other researchers in case they endeavored in conducting further study on the same or similar problems.
- . The study was part of an academic requirement for the award of bachelor's degree in business administration

.8 Conceptual Framework

NDEPENDENT VARIABLE

ANCIAL STATEMENT
- Income statement
- Balance sheet
- Cash flows
- Notes to financial statements
- State of changes in equity

DEPENDENT VARIABLE

DECISION MAKING PROCESS
- Poor management training
- Delay in preparation of financial statements
- environment

xplanation

iere are various methods used to analyze the financial statements, they are; income statement, ılance sheet and cash flows. It is through this financial statement that the bank is able to :termine their financial position and performance of the bank. Many banks are faced with the oblem of making sound decisions due to poor, inaccurate and delays in preparation of the ıancial statements. Poor management training may also slow down the decision making since e managers are mostly given the responsibility of making the organization decisions. ıvironment also may affect decision making since managers take one decision in a particular :uation and quite another in a different situation. Preparing financial statement to be used in :cision-making is the difficult task to many if not all of the commercial banks. This has caused ɜ failure to deliver productive decisions due to lack of sufficient records to base decisions.

CHAPTER TWO
LITERATURE REVIEW

.0 Introduction

'his chapter involved a clear and systematic location and study of documents that have ıformation related to the study. The chapter covered fundamental definitions of key terms used ı the study, relevance of theories and principles of the study, and clear links of the proposed tudy to other previous studies it also covered all materials that the researcher surveyed similar to ıe study. The section normally included theoretical studies that are the materials reviewed from xisting theories and principles and empirical reviews which are the materials from past research :udy, all similar or related to the topic

.1 Theoretical Literature Review

leischman and Kindersley (2001) wrote an article about the study on the purpose of financial ıformation. They postulate that; one of the purposes of financial statement was to facilitate the ecision making of financial report users. They argue that to effectively use the information in ınual financial report, however, users have to be able to understand them. To further such ıderstanding, annual reports include written explanations of financial information referred to in .e public sector as the letter of transmittal and in the private sector as management's discussion ıd analysis (MD&A).

hey argue that although the intent of these two documents was the same, the users can be quite fferent. Private companies generally expect users to have a reasonable understanding of ısiness and finance, while public entities must communicate with a much more diverse ıdience that includes citizens with little knowledge in financial matters. The readability of letter ` transmittal was relative to the management's discussion and analysis.

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:.2 Review of Related Literature

:here are some academicians who conducted their studies related to this topic.

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ased on these findings, the author suggests that preparers of both types of documents should ıe smaller, more familiar words in their financial communication and that standard-setting ɔdies establish guidelines or limits on the average syllables per word and average words per ntence in written financial communications.

rofessor Monyo wrote an article on the usefulness of financial reports. Monyo (2000).He ɔints out that, the market receives large amount of information that is relevant to a particular ·m. Thus at one level it is said that the annual report is just one piece of information that can :lp the market to form opinions on the financial strength of an organization and it's potential for ‹ing advantages of future position of the firm.

!.3 Financial statement

'inancial statement can be defined as the results of the activities of an entity and is prepared to ıelp interested persons decide on questions such as whether to lend its money or to invest in its hares. Financial statement analysis can also be seen as part of the link between the financial eports and the decision making process.

ıccording to IAS 1, a complete set of financial statement should contain the following:

ncome Statement

t is referred as the Profit and Loss Account or Income statement in the case of trading nterprises, which is calculated to summarize the results of the operation of an enterprise during ıe accounting period. In the case of government, charity organizations, whose motive is to rovide services, this will be a summary statement Income and expenditure, being a summary of ll the statements signed by accounting officer as per section 25 subsection 2(a) and 2(c) of the ublic Finance Act, 2001 (applies only for Government Organizations).

alance Sheet

his shows the financial position of an entity on a specific date. Each entity should present in its nancial reports based on the nature of its operations, clear classification between current assets ıd fixed assets and another between its current long-term liabilities as separate classifications ı the face of balance sheet.

ash Flow Statement

provides the basis on how an entity generates cash and cash equivalents and uses them from ırious sources and various dealings respectively.

tatement of changes in Equity

his shows the changes in share capital, profit or loss for the period and any other accumulated serve such as the share premium. These were presented on the face of statement of changes in ıuity or in the notes.

:.3.1 Analysis of financial statements

\nalysis of Financial Statements supplies essential guidelines and strategies for examining inancial report and making them a powerful tool in your own decision making. Financial tatements were not prepared as an end in themselves but in order that users can make decisions. 'he financial statements therefore need to be analyzed and interpreted. Financial statements are nalyzed by calculating ratios, for example, current ratio, debt /equity ratio, earnings per share nd after tax return on equity.

'he information gathered by calculating ratios allows comparisons with

- The performance of the business in previous years
- The budgeted or planned performance in the current year

he ratios themselves do not tell one what to do, but they do point one in the right direction. .atios should therefore, make it easier to make better decisions.

atio analysis may also be used to measure liquidity and solvency, but one of the most important ırposes of ratio analysis was to help users to appraise an organization's past performance and, om that appraise, to make judgments (decisions) about its likely future performance.

3.2 Qualitative characteristics of financial statement

here is necessary attributes which should be possessed by a financial report so as to enable terested parties to make rational economic decisions. The useful information contained in ıancial report should posses the following characteristics according to Alexander D and Briton (1986)

Understandability

ifferent users obviously have different levels of ability as regards understanding of accounting. nderstandability doesn't mean necessarily simplicity. It means that a report geared to abilities ıd knowledge of the users concerned reports. Simple aspect being reported to the users with tle or no background knowledge was leading to be considered very simple. The problem really ises when we have the task of reporting on complex activities but to the non expert users.

)) Relevance

'o be useful, information must be relevant to the decision-making needs of users. Information ιas the quality of relevance when it influences the economic decisions of users by helping them valuate past, present or future events or confirming, or correcting, their past evaluations.

) Reliability

'o be useful, information must also be reliable. Information has the quality of reliability when it ; free from material error and bias and can be depended upon by users. The information may be elevant, so unreliable in nature or representation that its recognition may be potentially nisleading.

) Accuracy

his refers to a situation where the contents of the report are assumed by an independent opinion xpressed by the external or internal auditors' reports to be accurate and correct.

Timelines

his means the information presented to the user in time for use to be made of it. Information esented has to be up to date as possible. Approximate information, were available from time to ssist some decision or action was likely to be more useful than presented after the decision has ready been made.

Completeness

) be reliable the information must be complete within the bounds of materiality and cost. An nission can cause information to be false or misleading and thus unreliable and deficit in terms 'its relevance.

Objectivity

ıe information prepared must be objective or unbiased in that it should meet all proper users eds and neutral in that the reception of the answer should be biased towards the interest if any e user group.

:.3.3 Objectives of Financial Statement

\ccording to International financial reporting standard 1^{st} July (2004)

'he main objectives of financial statements were:

) To provide information about the financial position, performance and cash flows of an entity that was useful to a wide range of users in decision making and evaluating decisions about the allocation of resources.

) To provide information that was useful for decision making and to demonstrate accountability of the entity for the resources entrusted to it by:

· Providing information about resources, allocation and uses of financial resources.

Providing information about how the entity financed its activities and met its cash requirements.

Providing information that was useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments.

Providing information about the financial condition of the entity and changes in it.

Providing aggregate information useful in evaluating the entity's performance in terms of service, efficiency and accomplishments.

:MA Examination Kit (New edition Focused, Nov 1996 and 1997) page 239 explained that the ıjectives of financial reports are to provide users with greater level of information about the ɜults and resources of a group that is available from profit and loss account.

ıus it was evident that the objective of financial statement was about giving information about ɜ organization's financial position and operations which provided the basis for decision ıking.

!.3.4 Users of Financial Statement

\s it has been discussed earlier, the purpose of accounting was to provide financial information or decision makers about economic activities. The value of financial report was determined by ow well it meets the needs of those who use it. It was concerned with measuring financial esources used to acquire other resources, the conversion of resources into goods and services nd the prices of goods and services sold to costumers.

'he following were the users of financial statement:

a. Owners and managers

Owners want to know exactly what they earn from what they have invested by observing ie financial performance and the position of the firm. To the managers they were also interested ı this financial report since they were the firm's decision makers.

b. Investors

Financial reports helps investors to evaluate the risk and the return they expect from their investments or if they were interested to invest.

c. Supplies

These were the people who were providing goods and service to the firm in terms of credit. Therefore they were interested in financial report in order to know the condition of the organization that they were providing temporal financial assistance in terms of goods and services, if they meet with their conditions.

d. Employees

These were workers in the firm and they were supposed to be paid their salaries and wages and they were interested to know about their job security.

e. Those who were providing financial accommodation to an enterprise, including banks etc.

f. The public including, tax payers, consumers, and other community and special interest groups such as political parties, environmental protection societies and regional pressure groups.

g. The government with its ministries and several regulatory authorities, including tax authorities, department and agencies concerned with the supervision of commerce and industries and local authorities

:.4 Decision Making Process

)ecision comes from the word decide, which means that to choose on in preference to other 'ariable alternatives. Decision-making involves a choice of actions or strategies, the outcome of vhich may be known for certainty or completely unknown. Decision making had been defined y different users, as follows;

ιccording to Weihrich and Koontz (2001), Decision-making is the selection of a course of ction from among alternatives; it is the core of planning. Decision comes from the word decide 'hich means to choose on preference to other variables alternatives. Decision making involve a hoice of strategies of the outcomes of which may be known for certainty or completely nknown. Decision making is referred as the process of choosing a course of action from among lternatives to achieve a desired goal. It consists of activities a manager performs to come to a onclusion.

.ccording to Garrison, (2000), decision making is often a difficult task that is complicated by ιe existence of numerous alternatives and massive amount of data, only some of which may be :levant. Every decision involves choosing from among at least two alternatives. The cost and enefit of each alternative should be compared. An essential function of management is to take ecision and decisions have to be taken whenever there are alternative courses of action.

:ole (1993) defined Decision-making as an accepted part of everyday human life.

ccording to Gupta (2001): Decision-making is the process of choosing a course of action from nong alternatives to achieve desired goals. It consists of activities a manager performs to reach onclusion. Decision-making is the process of selection and aim is to select the best alternatives.

4.1 Features of decision-making

iupta (2002) pointed out the features of decision-making to be the following:

Decision making is a goal-oriented process. A decision is made to achieve some goals or objectives. The intention is to move towards some desired state of affairs.

Decision making implies set of alternatives.

- A decision problem arises only when there are two or more alternatives.
- Decision making is dynamic process. It involves time dimension and a time lag. The techniques used for choice vary with the type of problem involved and the time available for its solution.
- Decision-making is always related to the environment. A manager may take one decision in a particular situation and quite another in a different situation.
- Decision making is a continuous process or ongoing process. Managers have to take series of decisions

Decision making implies freedom to the decision maker regarding the final choice. It also involves commitment of resources in specified ways.

.4.2 Types of Decisions

asing on different situations in which decisions are made, time and procedures to be followed pon making such decisions, there are various types of decision making. According to Gupta 2001); the main types of decision-making are as follows:

rogrammed and non-programmed decisions

rogrammed decisions are solutions to routine problems determined by rules and procedures or abit.

on- programmed decisions are specific solutions created through unstructured process to deal ith non-routine problems.

I. Routine Decisions

hese are of repetitive nature. They involve short-term commitments and have minor impact on e future of the organization. These decisions are generally made at lower levels of anagement in day-to-day operation of the business. This is established to make quick ecisions.

II. Strategic decisions

nvolve long-term commitments and large investments. These exercise a permanent influence on he future of the organization as whole.

V. Organizational decisions

\re made to further the investments of organization. Managers make them in their official apacity as allocation of resources. These decisions are based on rationality, judgment and xperience. Such decisions can be delegated to lower levels. These decisions affect the unctioning of the organization.

'. Personal decision

'hese are decision made by managers as individuals and on their own behalf. Such decisions an't be delegated. Decisions to marry, to buy a house, to send children in a boarding school are xample of personal decisions. Such decisions affect the personal life of a manager but may ffect the organization indirectly or directly. For example the decision of the chief Executive to etire early may have a direct effect on his company.

'I. Individual decisions

hese are decision taken by a single individual. These are concerned mainly with routine roblems for broad policies available. In such decisions analysis of various variables is relatively mple.

II. Group decisions

hese are decision taken by a group of persons constituted for this purpose. Decisions taken by oard of Directors or committees are examples of group decisions. These decisions are generally nportant for the organization. Group decision-making generally results in more elastic and ell-balanced decisions and encourages participative decision-making. But it involves delay and akes it difficult to fix responsibility for such decisions.

2.4.3 The role of decision-making

According to Gupta (2001): the roles of decision-making are as follows:

- Decision making is the vehicle for carrying managerial workload and discharging managerial responsibilities.
- Decision making is ubiquitous and permeates every step in the management process.
- It penetrates all the functions of management.
- It is therefore noted that, decision making is a persuasive management task.

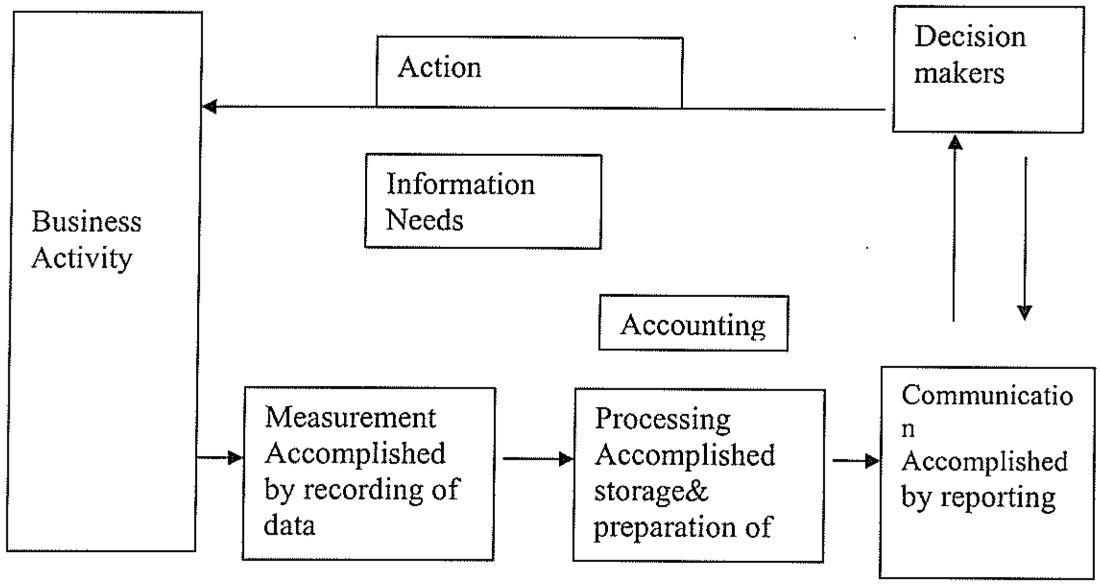
.4.4 Uses of financial statement in decision making

Financial statement in decision making exist to provide information about the financial haracteristics of organization to individuals and groups interested on those organization.

The processes of financial statement in decision making do not take place in vacuum. They are ignificantly affected by economic and social environment in which they are conducted, they are reflection of prevailing notions of accounting theory and they are strongly influenced by the egulatory system which operates to control them.

imon (1988) noted that it's often necessary to interpret financial reports in order to identify the rength and weakness of a company and highlight any underlying trend in its operation hence ıake a reliable decision. He however, said that one of the methods of identifying the company's rength and weakness was the use of ratio analysis. It was therefore observed that an entity's ends in its operation can be obtained upon analysis of financial reports which provided the ısis for decision making.

George (1993) pointed out that management uses accounting records (for example balance ıeet, profit and loss account statement and so on) when making future resources allocation ecisions concerning long-term and short-term investment.



: was observed that it is through financial reports that decision makers get information necessary ›r decision making. Therefore proper financial reports will result into a rational decision 'hereas inappropriate ones will automatically mislead decision makers.

CHAPTER THREE
RESEARCH METHODOLOGY

;.0 Introduction

Γhis chapter was about how the researcher arrived at the findings of the study. It included esearch design, study population, sample framework; sampling techniques, research nstruments, data collection instruments and data analysis.

·.1 Research Design

˜he research design that was applied was a cross-sectional survey that entailed both quantitative nd qualitative forms; the qualitative design was used to collect information from respondents on ıe importance of financial statements in decision making process.

;oth quantitative and qualitative techniques were applied during the study. Qualitative ːchniques were applied to provide answers to question like :how the financial statement assisted ıe management in making decision, to what extent management made use of financial report in ecision making, while the quantitative technique were used to review the role of financial report ı making decision.

.2. Study Population

ˈifferent managerial level together with accounting department (head of department and chief ːcountant total number of workers is 100) were consulted during the study on different areas in rder to gather enough data to make a conclusion of the study

.3. Sampling Techniques

he following techniques were applied for data collection during the study so as to obtain the ue representation of the population; In order for the researcher to collect data during the study :e researcher choose to use proportional or disproportional stratified random sampling chnique to ensure a balance of respondent from each department, in this method the researcher vided the population into strata (groups) according to the number of specific groups of ɔpulation that were included in sample, then from each stratum a sample was randomly drawn ther proportionally or disproportionally.

According to Sloven sample size was determined by the formula below

n= N/ [1+N(c) ^2]

Where

n = sample size

N = target population

C =margin of error at 5% standard value

<u>Sample size</u>

$$n = \frac{100}{[1+100(.05)^2]} = 80 \text{ respondents}$$

Sample size = 80 respondents

.4. Sample Size

The sample size was therefore comprised of eighty (80) respondents out of 100 people comprising of thirteen (13) managers from each department, eighteen (18) accountants, eighteen (18) people from human resource, fifteen (15) people from finance and sixteen (16) from logistic department. This was the size found affordable and adequate for the purpose of the study.

.5. Data Collection instruments

Basic collection method that were used to come up with relevant and adequate information were questionnaires, interview and documentation

.5.1 Questionnaires

A set of questions were prepared and the employees from the various departments werevrequested to fill them. Questionnaires were designed in such a manner that relevant information gathered was useful in depicting the operation trend of the organization.

.5.2 Interview

The target respondents were those staffs in accounting and finance this was aiming at obtaining necessary information for the study. The respondent's opinions provided relevant information.

3.5.3. Documentations

It involved examining the bank reports on performance for the period of two financial years from (2009/2010-2010/2011).This assisted the researcher to compare those aspects between the two years so as to find out what improvement have been realized especially on decision making process by using such records.

3.6 Limitation of the Study

Researcher faced the following limitations;

1. There was problem of communication since some of the respondents could not neither read nor write English language in which research questionnaire was designed.
2. The researcher experienced some difficulties in getting some of the desired information due to the fact that the organization opted for confidentiality of information.

3. Researcher encountered some staff that was not willing to cooperate in the collection of data.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF DATA

4.0 Introduction

This chapter observed and discussed the findings from the empirical study. Considering the research questions, the quantitative data analysis techniques, have been used to analyze all the findings. Attempts were made to identify the role of financial statement in decision making, to interpret the result with respect to the research questions developed to guide the study.

4.1 Findings of the objective

4.1.1 Presentation of demographic data

Table 1: Bio-data of respondents in both questionnaires and interviews in frequency and percentage.

SEX	FREQUENCY	PERCENTAGE
MALE	45	56.25
FEMALE	35	43.75
TOTAL	**80**	**100**

MARITAL STATUS	FREQUENCY	PERCENTAGE
MARRIED	60	75
SINGLE	20	25
TOTAL	**80**	**100**

LEVEL OF EDUCATION	FREQUENCY	PERCENTAGE
CERTIFICATE	10	12.5
DIPLOMA	15	18.75
DEGREE	35	43.75
MASTERS	10	12.5
TOTAL	**80**	**100**

AGE	FREQUENCY	PERCENTAGE
18-26	5	6.25
27-35	25	31.25
36-45	30	37.5
46 and above	20	25
TOTAL	**80**	**100**
DEPARTMENT	**FREQUENCY**	**PERCENTAGE**
ACCOUNTING	18	22.5
HUMAN RESOURCE	18	22.5
MANAGEMENT	13	16.25
FINANCE	15	18.75
LOGISTICS	16	20
TOTAL	**80**	**100**

ource: primary data

'he above table illustrates that 56.25% of the respondents were male while 43.75% of them were :male. The sample was therefore dominated by male participants.

lajority of the respondents were married with 75% of the respondents stating that they were iarried while only 25% of the respondents stated that they were single.

.ll respondents were educated with 12.5% certificate holders, 18.75% of the respondents were iploma holders, 43.75% of the respondents were graduates with degree and 12.5% of the :spondents had gone through post graduate education.

lost of the respondents were derived from the accounting department which had 22.5% of the ital respondents, 16.25% of the respondents been managers, 18.75% of the respondents were om the finance department and 20% were from logistics department.

he age category was divided into four categories, 6.25% of the respondents were aged between 3 and 26 years, 31.25% of the respondents were aged between 27 and 35 years while 37.5% of e respondents were aged 36 and 45 and 25% above 46 years of age.

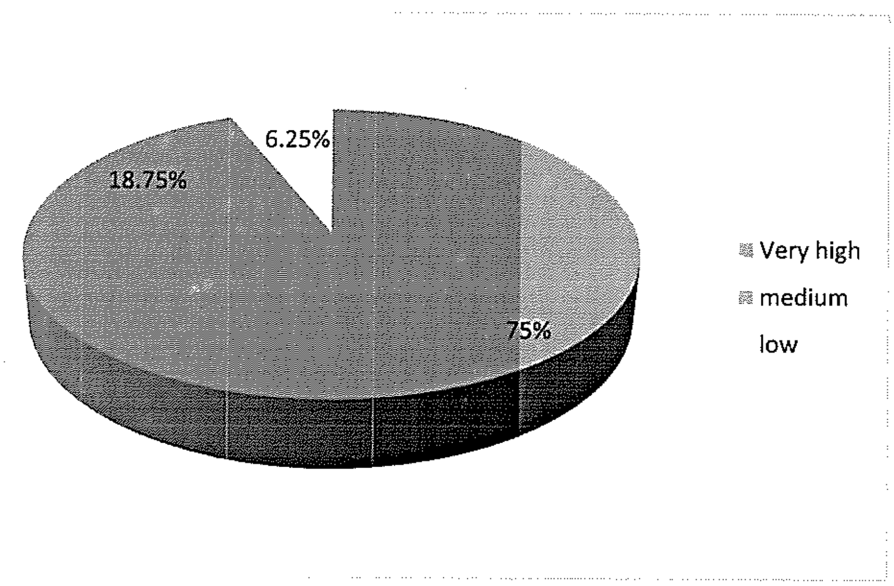
4.2 Management use of financial statement in decision making

Table 2; show the extent to which management make use of financial statement in decision naking.

Remarks	No of respondent	Distribution %
Very high	60	75%
Medium	15	18.75%
Low	5	6.25%
	80	100

Source: primary data.

igure1: pie chart showing dependence of management in financial statement for decision naking



rom the above table still we can see that most of the staff who were in the whole process of ecision making which is 75% from the respondent, said that the financial statement in decision naking agree that the management depend highly in the financial statement in decision making. While 15 of respondent who were 18.75% said that the management depend no very much in the whole process of decision making using accounting information and 5 of the respondent said it only depend very low in accounting information for the whole process of decision making

Therefore from the above interpretation we can say the bank management has to depend very much from the financial statements since the majority of the people understand and are aware of he financial statement in the whole process of decision making.

.3 The use of financial statement in decision making

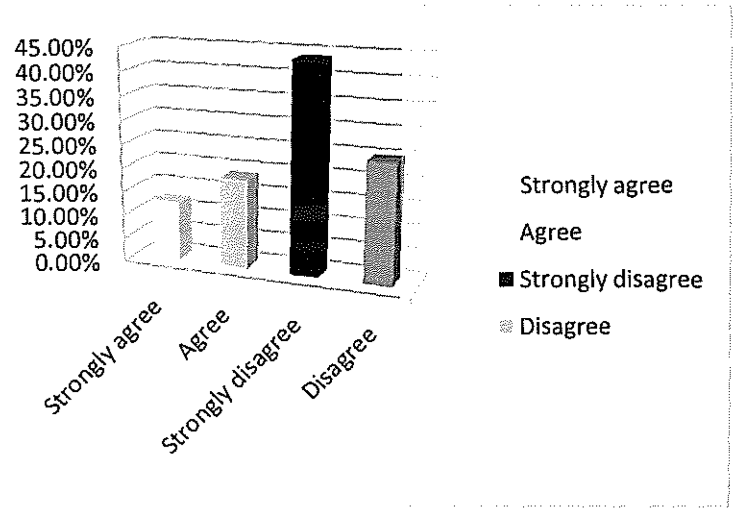
orm the research question' can management make good economic decisions in the absence of inancial statement?' different views has been obtained from the respondent.

able 3; **showing responses on whether management can make good economic decisions in he absence of financial statements**

Remarks	No of respondent	Distribution %
Strongly agree	10	12.5%
Agree	15	18.75%
Strongly disagree	35	43.75%
Disagree	20	25%
TOTAL	**80**	**100%**

ource: primary data

gure 2 showing response from post bank staff on whether management can make good :onomic decisions in absence of financial statement.



Most of them agree that the bank decision making depends much from the financial statement prepared.35respondent who are 43.75 % strongly disagree that management cannot make good economic in absence of financial statement, 20 respondents who are 25% agree,10 of the respondent who are 12.2 % strongly agree,15 respondents who are 18.75 agree that the management may use its own experience to make good economic decision in absence of financial statement.

Therefore the performance of the organization depends fully on the decision made by the management, but sound decisions are always on the financial statements.

During the research study, conviction was made that, the management's decision do depend highly on the organizations financial statements.

The basic decisions made by management using financial statements include,

- Budgeting
- Planning
- Motivation
- Implementation

On every end of the quarter, financial statements are released at this point, management seats with heads of departments analyzing. They seek for weakness if any; they also plan what next by making budget for the next quarter and discuss its implementation, and then the management announces all the changes that has appeared in the quarter report to the staff.

l.3.1 Financial reports available to management for decision making

Γhe main major responsibilities of the bank management are preparation of the financial ,tatements, decision making and supervising the lower sub ordinate. Where accounting and inance department was the section where financial accounts were prepared and retained. ⁻inancial statement contain summarized information of the firms financial affairs, organized ;ystematically. They were means to present firms financial reports to users. This section also ›repared quarterly reports, which were required in decision making,. The bank prepares this ›rogressive reports quarterly to enable it allocate funds for each next quarter .This financial ;tatement of the bank contains;

- Income statement
- Balance sheet
- Cash flow statements
- Disclosures i.e. bank reconciliation, accounting policies
- Statement of changes in equity

3y interviewing the accounting department in post Bank, it was noticed that the company ıccounting and finance department has been divided into finance department, Account łepartment, Audit and stores department.

The accounts department, provides postbank with the efficient and effective

- Financial control function
- Recording of all financial transactions
- Processing and production of accurate financial report timely in compliance with the finance department and postbank financial policies and procedures
- In order to achieve the purpose of the existence of the department the team members are located inter-alia payment accountant, financial accountant, data processing accountant, cashier, payroll accountant and chief accountant in order to observe the laid down internal control systems.

4.4 The role of financial statement in decision making

The study reveals that, financial statements are very important tools in any organization's decision making due to the following contributions;

a) It shows quantitative performance in terms of profit and loss - The financial statements prepared by post bank include income statement that shows the amount of profit /loss for that period of time.
b) It shows the financial position of the organization at a particular period - The financial position of the bank revealed in the balance sheet prepared in the organization.
c) It shows the business trend over a period of time thereby helping in forecasting the future.
d) Financial statements act as the reference of previous decisions made on the same matter.
e) Financial statements help to measure the targeted goals if they had been attained or not.
f) Financial statements provide almost all the necessary information required by the decision makers.

4.4.1 Contents of accounting records

From the respondents received from interview and questionnaires, the accounting records comprise of the following;

- **Income Statement**

It is referred as the Profit and Loss Account or Income statement in the case of trading enterprises, which is calculated to summarize the results of the operation of an enterprise during the accounting period. In the case of government, charity organizations, whose motive is to provide services, this will be a summary statement Income and expenditure, being a summary of all the statements signed by accounting officer as per section 25 subsection 2(a) and 2(c) of the Public Finance Act, 2001 (applies only for Government Organizations).

Balance Sheet

This shows the financial position of an entity on a specific date. Each entity should present in its financial reports based on the nature of its operations, clear classification between current assets and fixed assets and another between its current long-term liabilities as separate classifications on the face of balance sheet.

Cash Flow Statement

It provides the basis on how an entity generates cash and cash equivalents and uses them from various sources and various dealings respectively.

Statement of changes in Equity

This shows the changes in share capital, profit or loss for the period and any other accumulated reserve such as the share premium. These were presented on the face of statement of changes in equity or in the notes.

Notes to Financial statement.

The notes of financial statement;

Present the information about the basis of preparations of financial statement and the specific accounting policies.

Disclose any information required by IFRS that was not presented on the face of international statements.

Provide additional information that was not presented on the face of financial statement that was deemed relevant to an understanding of any of the item.

The above pie chart indicates that managers are the major users of financial statement (37.5%), since they are the major decision makers in the bank; owners also are users of financial reports (18.75%) because it helps them know the performance of their business. Investors depend on analysis of financial reports (18.75%) in their decision of whether to invest in that bank or not. Employees use the financial reports (6.25%) to determine the security of their job, the public use financial reports (12.5%) in measuring the credibility of the bank so as to be assured of the safety of their deposits in the bank. On the hand the government make use of financial reports (6.25%) to assess whether the bank is paying the taxes as per required.

4.5 Limitations of financial statements in decision making

The findings obtained the following limitations of financial statement during the study;

i. Historical data - Financial statements prepared by post bank are based on historical data that may not have direct relationship to future outcomes. Since future is so uncertain, then someone making decision for future basing on the reports prepared on historical data may face some troubles.
ii. Inflation - Change in the value of money is among the limitations which create problems during decision making, for example, comparing financial statement of different periods in a meaningful manner.
iii. Inconsistency - statements that lack uniformity in accounting practices usually results into difficulties on comparison with other organization.

Through interviewing the staffs, it was found out that most of them are aware with the limitations arising during decision making.

In preparation of this financial statement there were some problems that the staffs in accounting and finance department do experience. This problem in one way another was considered to be the misleader of effective use of financial statement. But due to the experience that the staffs had they managed to take control of the whole thing in the department and in other departments and managed to overcome them. These problems were as follows:-

- Losses of some accounting data.
- Lack of important information
- Poor transactions figure during recording

- Problems of simple entry

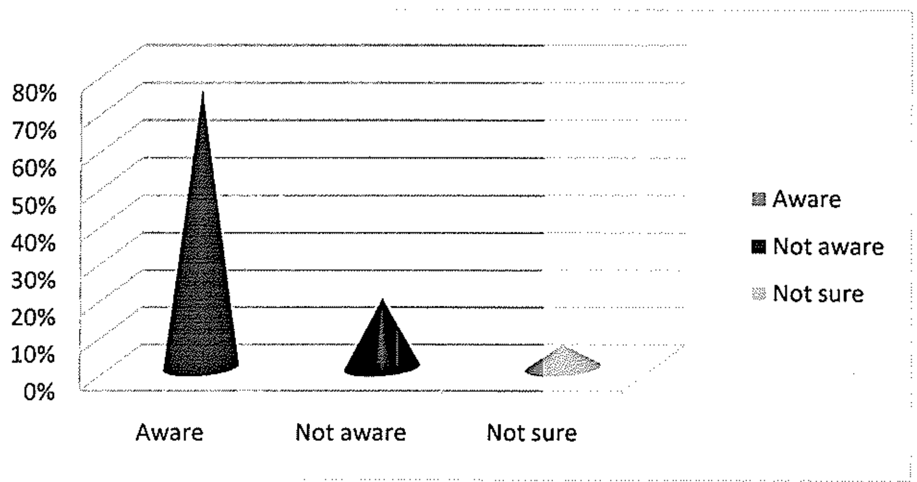
Table 5 showing awareness of the limitations of financial statements in decision making.

Remarks	Number of Respondents	Ratio of points	Distribution (%)
Aware	60	60/80	75%
Not aware	15	15/80	18.75%
Not sure	5	5/80	6.25%
Grand total	80	1	100

Source: primary data

Table5;above shows that 75% of the respondents are aware about the limitation of financial statements during decision making 18.75% of them are not aware and 6.25% of the respondents are not sure.

Figure 4; a pie chart showing the proportions of respondents



Based on the above chart, most of the respondents are aware of the limitations of financial statements in decision making. It was suggested that the management should introduce training sessions to its staffs especially those who are responsible for decision making. Sound decisions are made only when great numbers of members are aware of historical data, inflation and inconsistency.

4.5.1 Factors that hinders effectiveness use of financial statement in decision making.

most of the staff agrees with the point that the decision making has to rely highly from the financial statement but there were some of them who didn't agree with that or don't trust that much in decision making using financial statements and the major reason behind that is due to some factors that hinders the effectiveness use of financial statement in decision making process.

Table 6; **showing** factors that hinder the effective use of financial statement in decision making.

Criteria used	**No of response**	**Positive response**	**Percentage (%)**
Lack of knowledge	80	18	22.50
Change in accounting standard	80	22	27.50
Misinterpretation of financial statement	80	24	30
Unaware of anything	80	16	20
Total	-	**80**	**100**

Source: primary data

4.5.2 Maximum time that account records are kept

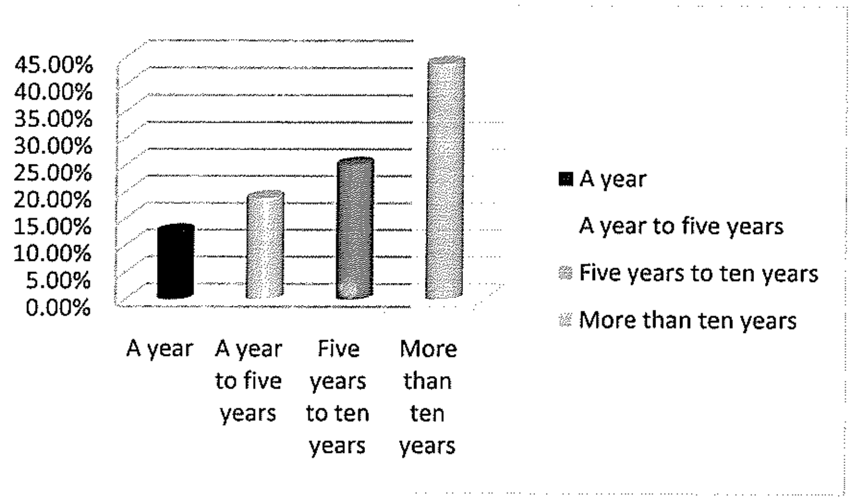
The respondents provided the following data on the maximum time that the accounts are kept available for inspection by officers of the company

Table 7; showing maximum time that account records are kept available for inspection

Figure 6; showing maximum time that account records are kept available for inspection

TIME	RESPONSE	PERCENTAGE
A year	10	12.5
A year to five years	15	18.75
Five years to ten years	20	25
More than ten years	35	43.75
Total	80	100

Source : primary data



.5.3 Period taken before a transaction is recorded in books of accounts

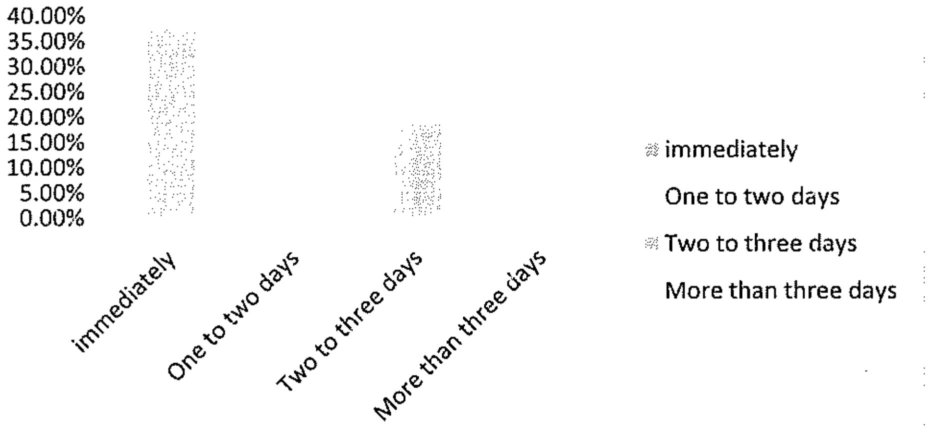
rom the data collected it is evident that different employees have different opinion on the period ıken before a transaction is recorded in books of accounts as shown below;

Table 8; showing period taken before a transaction is recorded in books of accounts

Period	responses	Percentage
Immediately	30	37.5%
One to two days	25	31.5%
Two to three days	15	18.75%
More than three days	10	12.5%
Total	80	100

Source: primary data

Figure 7; bar graph showing period taken before a transaction is recorded in books of account



The bar graph reveal that the transaction is recorded immediately as per 37.5% of the respondents, 25 of respondents that are 31.5% said it takes one to two days before transaction is recorded in books of account.15 of the respondents who are 18.75% said it takes two to three days while 10 respondents who represent 12.5% said that it more than three days before the bank records a transaction in the books of account.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMENDATIONS

.0 Introduction

his chapter covers analyses and discusses the research findings as per the study. Data collected om the questionnaires, interviews, documentation was summarized, analyzed and presented to ıow the situation. In the course of the study, illustrations and elaborations to justify certain ıtcomes are thereby provided in form of tables, graph, percentages and appendices to enhance arity

2 Summary of findings

ata was gathered from one eighty respondents all of whom were employees of postbank from fferent levels.

ıe researcher's plan was to collect data on the perceptions of the respondents on the role of ıancial statements in decision making process, where the respondents were supposed to explain e extent to which management rely on financial statement for decision making process.

he researcher began by studying research questions and then analyzed data collected during the terview and the past documents and the filled questionnaires that provided answers to the search questions.

terviewing was one of the methods used to collect data inside the organization. This was made sy since most of the employees responded quickly.

ghty (80) questionnaires were distributed to collect data from postbank. The questionnaires re filled and returned to the researcher.

e research revealed the role financial statement play in decision making process and also the rious challenges that the bank face while preparing the financial statements

Conclusion

ıce the research study was part and parcel of the working part of the organization, including ticipating in day to day activities, relevant data were collected and come up with a conclusion t all the accounting reports are audited within the company and outside by internal and ernal auditors respectively, which gives more strength to the users of financial reports to trust decision that are coming out from the prepared financial statement.

sed on data interpretation, objectives and purpose of the study, it is concluded that,

i. The organization has competent team for making decisions because large numbers of decision makers are aware of the factors that hinder effective use of financial statements in decision-making. From the research findings almost 75 % were aware of the factors that hinder effectiveness of financial statement in decision making.

ii. The majority of decision makers were aware of the limitations of financial statements in decision-making. The findings obtained during the study revealed the following limitations.

- Historical data - Financial statements prepared by postank are based on historical data that may not have direct relationship to future outcomes.
- Inflation - Change in the value of money is among the limitations which create problems during decision making, for example, comparing financial statement of different periods in a meaningful manner.
- Inconsistency - statements that lack uniformity in accounting practices usually results into difficulties on comparison with other organization.

But the majority of decision makers are satisfied with the information contained in their financial statements while few of them are not satisfied

i. Late delivery of information transferred from other departments creates some problem in preparing monthly interim report which is useful for making decisions.

l Recommendation

sing on conclusion above it is recommended that,

There is need of improvement of accounting system in use

The accounting system in use is not fully computerized; because of advancement in technology and for the bank to improve the accuracy of such a system, it should develop the system by computerizing using modern and current accounting packages. As known that computerized accounting is the faster way of producing a report which is accurate and complete for the decision making

Training

Accounting staff members should get more training in computer especially the accounting package which is in use. This will help to increase their efficiency.

Also they attend the IFRS conferences which will broad the accounting staff's mind about new accounting techniques.

i All necessary information must be transferred from other departments to the finance and :counts department in time for preparing monthly interim report. There must also be proper ›nnection of the computer network system to make sure that it operates all the time. Electric ıtomatic generator must be installed to be used when power goes off.

The number of employees in accounting and finance departments is not sufficient. The gregation of duty in other time seems to be basing to only few people while it was supposed be done with many staff. Not only that it happens also in monitoring and operation the few ıff presents has to handle a lot of duties while it was supposed to be handled with others nce the working condition becomes tougher and very slow.

The bank has to develop high quality customer services at highest possible level this includes ving suggestions box so that it could work on all the complaints made.

Postbank is a large bank and well knows but it has to organize special advertisement that ll create awareness to the public that the bank is the best bank in kenya that cares for the stomers need.

i Since the financial statements are considered very important instrument for making sound cisions, then all decision makers must be qualified in interpretation of the financial tements.

ii Lastly the workers have to be motivated in a point that they are proud of their jobs and ir responsibility; including well packages of salary, early salary payments , evaluation of formance and awarding the best workers and supervision of the junior workers.

APPENDIX I
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APPENDIX 11

RESEARCH INSTRUMENTS

ı Research Questionnaires

ear Sir/ Madam,

s a student pursuing bachelor degree in business administration, am carrying out a research on e topic' the effectiveness of financial statement in decision making process 'the study is ›nducted in the fulfillment of the requirement for the award of degree of bachelor of business lministration. The data obtained will be in critical analysis of the role played by financial report making organizational economic decision; and will also identify problems and challenges if ıy, associated with financial reporting in the organization so that possible solutions can be ggested. Your response will be treated in confidentiality and will strictly be used for academic ırposes

I hereby request that you answer them to the best of your knowledge.

Thank you in Advance.

....

ESTHER MWANGANDA.

1. **PERSONAL DATA**

➢ **Age**

a) 18-26 ☐ c) 36-45 ☐

b) 27-35 ☐ d) 46and above ☐

➢ **Sex**

a) Male ☐ b) Female ☐

➢ **Marital status**

a) Married ☐ b) single ☐

➢ **Department**

Accounting ☐ Human resource ☐

Management ☐ Finance ☐

Logistics ☐ Sales and marketing ☐

2. **MANAGEMENT USE OF FINANCIAL STATEMENT IN DECISION MAKING**

i To what extent do management rely on financial statement for decision making?

a) Very high [ ]

b) Medium [ ]

c) Low [ ]

ii. Can management make good economic decision in the absence of financial statement?

a. Strongly agree [ ] b. Agrees [ ]

c. Disagrees [ ] d. strongly disagrees [ ]

iii. The financial reports available to management for decision making in Postbank Makueni branch Include:

Put a tick

a) Income statement [ ]

b) Income and Expenditure Account [ ]

c) Cash flow statements [ ]

d) Balance sheet [ ]

e) Directors report [ ]

f) Statement of accounting policies and explanatory notes. [ ]

3. **ROLE OF FINANCIAL STATEMENT IN DECISION MAKING**

I. What role do financial statements play in decision making?

....

....

....

. What are the contents of accounting records in your organization that can assist in decision ıaking?

a) Entries from day to day (money received and used) [ ]
b) A record of the assets and liabilities [ ]
c) Capital net worth and net profit of the period. [ ]

Please, if there is others mention...

....

....

iii. . Who are the users of financial reports prepared in Post bank?

a Owners [ ]
b Investors [ ]
c managers [ ]
d Employees [ ]
e The government [ ]
f The public [ ]

4. <u>LIMITATIONS OF FINANCIAL STATEMENT IN DECISION MAKING PROCESS</u>

i. What problems do you normally encounter during preparation of financial report?

a) Loss of data
b) Lack of important information
c) Poor transaction figures during recording
d) Problems of simple entry

Please, if there is others mention...

....

....

....

) Interview Guide

he following questions will be asked in the interview as the researcher notes the answers

What is your position in postbank?

How often do you prepare financial statements?

What types of financial statements do you prepare?

Who is responsible for preparing the financial statements?

Can management make good economic decision in the absence of financial statement?

Does management depend entirely on financial statement for their decision making?

What are some of the problems that the bank faces in their preparation of financial statements?

What role does financial statement play in decision making process?

Who are the users of financial statements prepared by postbank?

APPENDIX III

RESEARCH BUDGET

ITEMS	COST PER DAY (60 DAYS)	TOTAL (KSHS)
Traveling Expenses	50×60	3,000
Meals and Accommodation Expenses	200×60	12,000
Stationery	1,000	1,000
Printing	400	400
Binding	1,000	1,000
Miscellaneous Expenses	2,000	2,000
TOTAL		19,400

APPENDIX IV

GANT CHART SHOWING SCHEDULE OF ACTIVITIES

CTIVITIES	EXPECTED DURATION IN WEEKS									
	1	2	3	4	5	6	7	8	9	10
AMILIARIZING WITH TAFFS										
ESIGN OF THE ESEARCH										
ATA COLLECTION										
OMPILING AND REPARATION OF IANUSCRIPT										
EPORT WRITING RAFT)										
ST SUBMISSION										
AST SUBMISSION										